

CANADA

Pat Lavelle: part politico part merchant

MCQUEEN

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Now 60, Mr. Lavelle's career has included posts as vice-president of Magna International Inc., deputy minister of industry in the Ontario government and president of the Automotive Parts Manufacturers' Association of Canada.

Good-luck lightning struck a second time. In 1998, Mr. Lavelle was named chairman of the Export Development Corp., thereby rendering him national rarity status as the recipient of back-to-back patronage appointments at Crown corporations.

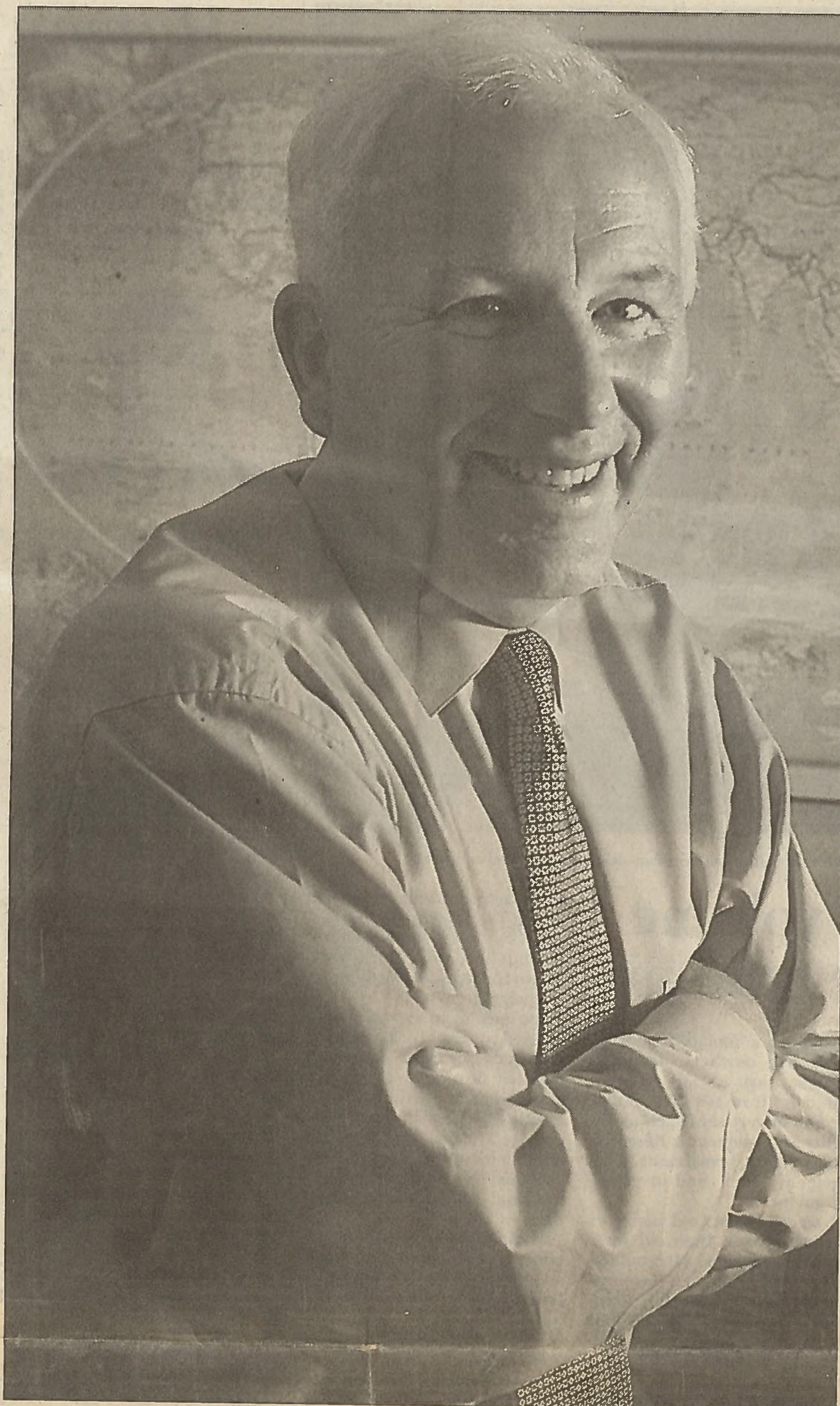
"I don't think patronage is a dirty word or, if I did, I'd be indicting myself. All of the boards of Crown corporations, by and large, switch when the political parties change power. Done responsibly it's part of the political process. I don't see a problem with the prime minister appointing people who are competent. If they happen to be of one political persuasion, so be it. I've always been a Liberal. Public scrutiny, the fact that you were picked by the prime minister, makes you want to do the best goddam job you can."

Mr. Chrétien gave him no specific marching orders for either role. The first time around, "the prime minister phoned me and said, 'Look, this is a situation that we're trying to change. It would be perfect for you.'" It was left to John Manley, minister of industry, to tell him about a plan to turn FBDB (a lender of last resort so notorious that it was widely known as Flubdub) into a profitable, commercial organization.

As patronage appointments go, FBDB was no gift. "I didn't know as much as I thought I did about FBDB. It was a 50-year-old organization that had really been badly bruised by the process. It had lost a lot of money, had been used by various governments for purposes that it wasn't intended to be used for. It was a bureaucratic haven and a backwater of the government and I didn't fully appreciate that," says Mr. Lavelle.

During his three-year tenure, FBDB was renamed Business Development Bank of Canada, opened store-front branches to reach its small business audience, replaced older employees with younger, better educated recruits, became profitable and paid the government a dividend for the first time.

There were also frustrations. "I underestimated in my own mind what a major job it was to change this old bureaucratic institution into something that the government wanted to put on a pedestal and, at the same time, effectively finance the knowledge-based economy. The culture is more ingrained than one can imagine in a



JOHN LEHMANN / NATIONAL POST

Patrick Lavelle, appointed chairman of the EDC, says the fact that one is picked by the prime minister, makes one want to do the best job possible.

call a well-paying job. I wouldn't have taken it for the money."

EDC is, however, a more enjoyable role for him than BDC. "EDC is a perfect example of an institution that was created to help foster growth of the Canadian export base." Founded in 1944, EDC provides insurance coverage against political and commercial risks ranging from unpaid orders to expropriation. Project financing, direct buyer loans and lines of credit are also available to foreign buyers of Canadian goods.

Mr. Lavelle spends about a week a month on EDC business and is a director on a number of corporate boards including Geac Computer Corp. Ltd., Slater Steel Inc., Revenue Properties Co. Ltd., Westport Innovations Inc., CPI Plastics Group Ltd. and a U.S. company, Soligen Technologies Inc.

As EDC chairman he plays a liaison role between EDC and the federal government, runs board meetings and confers with the minister before every board

bardier Inc. and Nortel Networks Corp. Small and medium-sized firms (those under \$25-million in annual sales) account for 88% of EDC's 4,183 customers, but only 17% of the \$34.8-billion in annual business. Quebec-based companies receive more help than any other province, about 38% of the total. Ontario is next at 34%.

Critics also point out that EDC has major advantages in the domestic credit insurance market. EDC pays no income tax or premium tax, pays no dividends to its only shareholder, the government, and is able to use government backing to borrow on favourable terms. The World Trade Organization has also questioned EDC's export-support programs by saying they may constitute unfair subsidies.

A year-long government-sponsored study of EDC by Ottawa-based law firm Gowling Strathy & Henderson completed in July has provided ammunition to both friend and foe by on the one hand lauding the organization but also

BDC should be some day with a strong customer orientation, commercially oriented and a strong sense of independence." BDC, he argues, is a Crown corporation that should be privatized.

But governments move slowly, as Mr. Lavelle well knows. Despite the thorough study and public hearings conducted by Gowling, two parliamentary committees will also hold their own hearings during the next session of Parliament. Moreover, a new trade minister, Pierre Pettigrew, was just appointed last month so a new mandate for EDC is unlikely anytime soon.

Throughout, Mr. Lavelle remains sanguine about the EDC's future but on guard about his role as chairman. "It's not hard, but because it's government, it's more ticklish. You've got to be more on top of the issues on a day-to-day basis. You're in the public domain. Whatever you do, whatever way you operate, it's fair game for

Week-old Calian unit racks up \$2.5M contract

BUSINESS LOOKING UP

Transformation into IT services firm proves profitable

BY JILL VARDY

OTTAWA • Calian Technology Ltd.'s electronic business services unit, launched last week, has already landed more than \$2.5-million worth of contracts for the technology services company.

Calian has secured a \$1-million deal with the Ontario Energy Board to develop an electronic system for companies required to submit regulatory filings. Another \$1.1-million (US) contract awarded by the Canadian Commercial Corp. will see Calian develop an Internet site, based on Industry Canada's Strategis site, for the Argentinian government.

Those two deals are in addition to a \$300,000 contract to develop a guidebook and CD-Rom for the Canadian Council for Human Resources in the Environment.

The contracts and the new business unit are the culmination of Calian's transformation from a struggling satellite communications supplier to a profitable information technology services company.

That transformation has attracted the attention of analysts who have all but ignored Calian in recent years. "By any measure you choose you now find Calian is undervalued," said John McIlveen, technology analyst at Scotia McLeod. Mr. McIlveen rates the company shares a "strong buy" with a 12-month target price of \$6.20. Calian closed up 5¢ Friday in Toronto.

Larry O'Brien, Calian's president and CEO, said the company is expecting to announce more contracts in the months ahead. "In July and August we did more proposal work than we did for the entire previous year. So business is looking up here," he said.

The new contracts will help Calian report revenue of \$94-\$96-million for its 1999 fiscal year ending Sept. 30, up from \$79.9-million in fiscal 1998. In the nine months to June 30, Calian reported a net profit of \$2.3-million, 236% higher than the same period last year.

Calian's aim is clear — to be the company other firms and governments turn to when they want to turn their traditional business into electronic business. "It costs a bank 6¢ for a client to do a transaction at a bank machine. It costs the bank \$2 for the same transaction if you talk to a teller. So there's clear advantage to doing business electronically," Mr. O'Brien said. "Everyone is understanding that if they don't get on this horse they're not going to be riding in a few years."

Calian has positioned itself for this new business by buying Why Interactive, a former subsidiary of JetForm Corp., for \$6.4-million last May and by purchasing other IT staffing companies to boost its roster of skilled IT consultants. Although it has concentrated almost all its attention on providing technology services to companies and governments, it has steered clear of consulting work to help

increase profits. We're ready to do them with that," Mr. O'Brien said.

International Data Corp., a technology research firm, predicts Calian will increase staff to 1,070 in the next year (from 1,070) and boosts its roster of services to include management consulting, systems integration, outsourcing and staffing services. "Based on a number of large deals won recently, we expect to see a strong revenue growth through 1999," the company wrote in a report. "IDC believes Calian is well positioned to continue to expand its service offerings."

Calian plans to acquire small companies to expand its service offerings in other cities. Now, it has offices in Ottawa, Toronto, Washington and Saskatchewan. "We're in the people business, we want to have a local presence in more cities," said Tom Coates, company's general manager. "We will also be acquiring key technologies as we require to broaden our range of services."

Financial Post

ROYAL PREDICT TOTAL PROVINCIAL SURPLUS OF \$15.6

SEVEN IN THE BLACK SOON

BY ALAN TOULIN

OTTAWA • The provinces have a combined budget surplus of \$15.6-billion over the next five years, which could be used for cuts, debt reduction or spending, the Royal Bank of Canada says in a study of provincial budgets released today.

The expected surplus is less than Ottawa's anticipated fiscal dividend. In an earlier study, the RBC said the federal government could rack up a \$25.9-billion surplus, or 2.2% of GDP by fiscal 2004-2005.

Seven provinces are projected to have a surplus by the end of the 1999-2000 fiscal year. Ontario and Newfoundland won't achieve a surplus until the 2000-2001 fiscal year, and British Columbia won't record a surplus until the 2003-2004 fiscal year.

These provinces trail the others because they have larger deficits and reducing them will take slightly longer than the other provinces, the bank said.

Ontario began a program of cuts before it had achieved a balanced budget, slowing its progress toward attaining a surplus. On the other hand, the B.C. government opted to aggressively spend as a stimulus to the provincial economy, which was hit hard by the economic downturn in the Asia-Pacific nations.

"The benefit of the Ontario cut and the B.C. fiscal stimulus has to be weighted against the cost of the resulting slow buildup of the fiscal dividend in the future," the bank said.

The combined provincial surplus will represent 1.4% of GDP by 2004-2005.

The study attempts to measure how various policies could be affected by provincial fiscal dividend